

Check and Trade, the pre-trading compliance enforcement system for insiders in a company.

Background of the Invention

The supervision by regulators of the stock exchanges (e.g. SEC in the USA) on Insider Trading by company staff is getting stricter every day also in Europe. At the same time much more private individuals are investing actively on the stock exchange to improve their financial situation for their retirement. Also employee stock options and stock schemes are becoming more popular in the European listed companies. The employers of these private investors are running an enormous reputation risk if their staff is connected to insider trading. This might hurt the company's stock price in a big way and might lower the company's value by billions of Euro's or dollars.

Our system enables the employer and it's compliance department to efficiently manage the related information and warn insiders beforehand in the pre-trading stage whether an investment transaction on the stock exchange in a specific instrument is at that time compliant with the legal rules and internal company regulations. By synchronising this check with the real time stock exchange prices, the online news and other market data the compliance department can put an intended deal into the proper context.

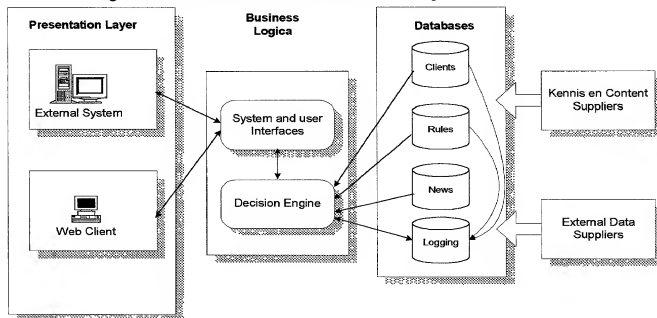
Brief Summary of the Invention

Our Invention enables companies, banks and other financial institutions to enforce legal compliance rules to their staff. Staff members who intend to do a transaction on a stock exchange get an unambiguous answer (Yes or NO) to the question whether that security's transaction at that given moment is compliant to the existing legal rules and the internal regulations of the employer.

Detailed description of the Invention

IT infrastructure of Check-N-Trade

Check-N-Trade is building a system which can offer these services. The figure below shows an overview of the main components.



The main components of this system are:

- The Customer database: this database contains the personal data of all Check-N-Trade customers, including details from the registration form such as position, the nature of the internal information to which the employee has access, his/her partner and/or family members. Staff participating in option schemes can also be registered in this database.
- The rules database: this database contains all legal and financial data that are relevant in the process of determining whether a transaction is permitted. General legal information as well as specific data concerning take-overs, mergers etc., will therefore be included. This expertise will be provided in co-operation with the accountant- and consultancy partner involved. The relevant data are translated into a rules-set (part of the decision engine) which ultimately shows if a deal is legitimate or not at that point in time.
- News database: Check-N-Trade will purchase relevant economic and business news from a third party (e.g. Reuters, Bridge). This news will be spread amongst Check-N-Trade customers and will be logged, in order to have it synchronised in a later stadium, with checks and transactions done by clients.
- Decision engine: This part of the system determines whether a certain transaction is allowed, based on the information contained in the customer database and rules databases.
- Historical log: It is essential to be able, at any given time, to determine whether a certain transaction was legally permitted at a certain point in time, **based on the data recorded in the system at that particular moment.** Therefore, an extensive historical logging of news, share prices, transactions and checks per client will have to take place.
- Check-N-Trade External API: a service API that enables existing stock broking companies and banks to integrate the Check-N-Trade service in their flow.
- Web-interface: Check-N-Trade will implement its own website on which CNT customers can check whether they are permitted to conclude certain transactions. This is a stand-alone service and therefore not integrated into other systems.

The web-based interface for the intranet or WAN for large financial Institutions.

The modelling of the insider knowledge is done based on two approaches;

The official hierarchy of the company. This is the functional model of the organisation on which most Chinese Walls are based.

The dynamic information flows which stream through the organisation over time. The design is based on plug gable rules for several core banking information flows, such as; The Credit Process, I.P.O's, Structured Finance Workflow etc. Once the start of such a flow is registered the next steps in the process, including the involved insiders, are immediately closed for trading.

The combination of these two approaches creates a dynamic process in which the compliance rules can be much more flexible, to the point and in real-time. Based on the personal profile of each employee in the Personal Insider Profile (PIP) form.

Setting up the system

This paragraph describes all the information that must be entered in the system or application.

The Decision Flow

At the basis of every compliance decision is the question whether a staff member has knowledge about a company or other market relevant information to which he has access solely because of his profession and to which other investors have no access at that time.